



Committee On Finance

Max Baucus, Chairman

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STATEMENT BY
CHAIRMAN MAX BAUCUS
FINANCE COMMITTEE HEARING
RETIREMENT SECURITY: PICKING UP THE ENRON PIECES
WEDNESDAY, FEBRUARY 27, 2002

Technically, this hearing is about the Enron case, and its implications for pension policy. But it's really about much more than that. At the most fundamental level, the hearing is about confidence. All across the country, the story of Enron has undermined public confidence. In business ethics. In our accounting system. In our tax laws. And in our pension laws. So what do we do about it?

As often is the case, most of the solutions will come from the private sector. Especially from more transparent accounting and stock analysis. Government also has a role, through our pension and tax rules. But we have to strike a balance.

It is said that American political thought can be boiled down to two sentences. First, "get the government off my back." Second, "there ought to be a law about that." And so it's the case here. On one hand, we want pension rules that protect workers. On the other hand, we don't want those rules to be so complicated that they discourage companies from providing pensions in the first place.

With this balance in mind, let's turn to the specifics. We all sympathize with Enron's rank and file workers. They thought they had dream jobs. They worked company that was praised for its innovation. Then they saw that dream crumble. In many cases, a lifetime of retirement savings turned to dust.

In response, we may need to make some changes in the pension rules. It would not be the first time that this has happened. For example, twenty-five years ago, the giant auto company Studebaker went bankrupt, leaving thousands of retirees and workers without the pensions they'd been promised. This led to the creation of the Pension Benefit Guaranty Corporation.

Today, as a result, millions of workers know they can depend on a predictable benefit

when they retire. But there also has been a significant change. More and more, the traditional pension plan, the so-called defined benefit plan, has been replaced by defined contribution plans like 401(k) plans. This is the partly a reflection of fundamental changes in our economy. Workers today change jobs more often than they used to, and 401(k) plans are designed to move with them when they do.

Today, 42 million workers depend on a 401(k) plan for their retirement security. This is over one-third of our workforce. Assets held by these plans have grown from \$74 billion in 1975 to over \$2 trillion today. They aren't guaranteed, like defined benefit plans, but they can produce big benefits. As the stock market rises, 401(k) account balances grow along with it.

But there's a down side, which the Enron case demonstrates. Workers can be left with no nest-egg at all to show for a lifetime's worth of work. Just ask people who worked at companies like Enron, Lucent, and Polaroid. They'll tell you that the risk of disaster is very real.

So, as I said at the outset, we need to strike a balance. We have to figure out how to protect worker's investments in defined contribution plans without imposing so many rules and regulations that we regulate them right out of existence.

Today's hearing is a first step. We want to find out what went wrong with Enron's pension plans. And we also find out whether Enron is an isolated case or whether it reflects a broad, systemic problem. Let me mention a few specific issues that I hope we can get into.

First, Enron's workers were highly concentrated in their company's stock, but they bought much of that stock voluntarily. That raises a question. Should we should impose limits on a worker's ability to buy employer stock, even that's what the workers themselves have good information and make that choice themselves?

Second, Enron's workers couldn't sell company matching stock until they reached age 50 with 10 years of service. We need to understand how many other workers are subject to these same limits, and whether they still make sense in today's investment climate.

Third, Enron instituted a 'black out' period while it was changing plan administrators. During that period, workers couldn't change their investments, and they had to sit by watching helplessly as their 401(k) funds lost more and more of their value. If we impose statutory limits on these 'black out' periods, or impose liability on employers and plan administrators, will that help workers, or hurt them?

Fourth, many workers had investment advice available to them and ignored it, while other workers don't have advice available and would like it. Is there a way to make good advice available to workers without putting them at more risk?

Finally, much of Enron's stock was held in the form of an Employer Stock Ownership Plan. ESOPs are great ways to help workers own a piece of the company they work for. They can help small companies raise capital, and avoid hostile takeovers.

But do we help or hurt workers when an ESOP is the only retirement plan they have? There have been a number of bills introduced already to address these and other issues, and I expect more are to come. Members of our Committee are among those that have introduced bills, including Senator Grassley's that is being introduced today.

It's important to understand the pros and cons of the proposals they represent, as we search for a consensus that's good for workers and good for the country. I hope that this hearing, and those to follow, will help Congress find the right balance that will protect and expand pension coverage for America's workers.